

Message Text

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43

ACTION EUR-25

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STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

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P 081220Z JUL 74

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 1573

INFO AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW (BY POUCH)

AMEMBASSY PRAGUE (BY POUCH)

AMEMBASSY SOFIA (BY POUCH)

AMEMBASSY WARSAW (BY POUCH)

C O N F I D E N T I A L BUDAPEST 1768

E.O. 11652: GDS

TAGS: HU, US, ECON, PFOR, PINT

SUBJ: SUMMARY QUARTERLY REPORT ON MAJOR POLITICAL,
ECONOMIC AND SOCIAL TRENDS -- JUNE 1974

1. SUMMARY: INTERNAL POLICIES: SECOND QUARTER OF 1974
DID NOT GENERATE SUFFICIENT INFORMATION TO ALLOW FIRM CON-
CLUSIONS RE EXTENT OF CHANGES THAT WILL DEVELOP IN INTERNAL
ECONOMIC AND CULTURE PRACTICES AS A RESULT OF CENTRAL
COMMITTEE (CC) DECISIONS OF MARCH 22. ALTHOUGH THERE ARE
INDICATIONS OF UNCERTAINTY AND SOME NERVOUSNESS IN ECONOMIC
AND AGRICULTURAL SECTORS, THERE HAVE BEEN NO MAJOR CHANGES
IN ECONOMY. TAXES ON THOSE IN HIGH INCOME BRACKETS AND
ON SMALLER HOUSES AND LARGE BOATS HAVE BEEN INCREASED
BUT NO STRUCTURAL ECONOMIC DECISIONS HAVE BEEN ANNOUNCED.
POLITICAL EMPHASIS HAS BEEN SHIFTED TOWARD THE WORKER
AND AWAY FROM MANAGER, BUT HERE AGAIN WE HAVE AS YET SEEN
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FEW CONCRETE EFFECTS IN ACTUAL PRACTICE. MINISTRY OF

CULTURE AND EDUCATION HAS BEEN SPLIT IN TWO AND AUTHORITY OF GOVERNMENTAL COMMITTEE ON EDUCATION INCREASED. BUT OTHER THAN A SUBSTANTIAL AMOUNT OF IDEOLOGICAL EXHORTATION AND AN INCREASED EMPHASIS UPON COLLABORATION WITH USSR WE HAVE SEEN NO SIGNIFICANT DIFFERENCE IN CULTURAL OR INFORMATIONAL OUTPUT; SOME PRESS SOURCES SAY, HOWEVER, THAT PARTY GUIDANCE HAS INCREASED AND WE COULD SEE MORE CHANGE IN FUTURE. KADAR APPEARS TO BE VERY MUCH IN CONTROL AND FEW PERSONNEL CHANGES SINCE CC MEETING, THOUGH TENDING TOWARD CONSERVATISM, HAVE NOT YET REVEALED ANY CLEAR PATTERN OF POLITICAL DEVELOPMENT, ACZEL CONTINUES TO RECEIVE SUBSTANTIAL PRESS TREATMENT AND EVEN NYERS RECEIVES SOME. IT REMAINS OUR OVERALL CONCLUSION THAT WHILE ANNOUNCED CHANGES IN APPROACH AND PERSONNEL WERE ESSENTIALLY CONSERVATIVE IN NATURE THEY HAVE NOT ALTERED ANY CENTRAL ELEMENTS OF HUNGARY'S BASICALLY MODERATE ECONOMIC AND CULTURAL POLICIES.

2. INTERNATIONAL RELATIONS: IN INTERNATIONAL RELATIONS THERE HAS BEEN A DRUMFIRE OF EMPHASIS ON IMPORTANCE OF POLITICAL AND ECONOMIC COORDINATION WITH USSR (AND OTHERS), A CONTINUED STRONG EMPHASIS ON DETENTE, AND INCREASINGLY FIRM SUPPORT FOR A EUROPEAN CP MEETING AND, LESS PRECISELY, FOR A LATER WORLD PARTY MEETING. HUNGARIAN ATTITUDES TOWARD IMPROVEMENT OF RELATIONS WITH US CONTINUE TO BE HIGHLY POSITIVE, WITH FOREIGN MINISTER CALLING IN PARLIAMENT FOR A "COMPLETE NORMALIZATION" OF RELATIONS AND SAYING THAT SLOW PACE OF IMPROVEMENTS DUE TO FACTORS IN US (APPARENTLY MFN AND WATERGATE). US-HUNGARY TRADE IN BOTH DIRECTIONS SUBSTANTIALLY INCREASED IN FIRST FOUR MONTHS OF 1974 (\$39 MILLION VS. (18 MILLION); SOME OF THIS (PERHAPS 20 PERCENT) WAS INFLATIONARY. US-HUNGARIAN ECONOMIC CLIMATE FURTHER IMPROVED BY EXECUTIVE LEVEL (ZARB) TRADE MISSION IN APRIL, WHICH HUNGARIANS HAVE EVALUATED VERY HIGHLY, AND LATER VISIT OF FEDERAL RESERVE CHAIRMAN ARTHUR BURNS. DURING THIS QUARTER HUNGARY INITIALED, IN WHAT HAD TO HAVE BEEN A POLICY DECISION, ITS FIRST JOINT EQUITY PRODUCTION VENTURE (VOLVO) AND PERMITTED FIRST NEW REPRESENTATION OFFICE (CREDITANSTALT BANK

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OF AUSTRIA). NOT UNEXPECTEDLY IT HAS AS YET, HOWEVER, NOT TAKEN SUCH STEPS WITH AN AMERICAN FIRM. WHILE WE ARE URGING EARLY ACTION, IT IS AS YET UNCLEAR HOW SOON IT WILL MOVE ON AMERICAN CONCERNS. HUNGARY CONTINUES TO PERMIT MODEST ADVANCEMENTS IN OUR CULTURAL RELATIONS AND TOOK A SUBSTANTIAL STEP IN ACCEPTING FOR A FIRST TIME US GOVERNMENT-SPONSORED CULTURAL PROGRAM (ALVIN AILEY DANCERS) -- WHICH WAS A SMASH HIT. WE HAVE BEEN INFORMED

THAT SUBSEQUENT TO CC SESSION IN MARCH THE GOVERNMENT HAD CONFIRMED ITS INTENTION TO PROCEED WITH CULTURAL AGREEMENT WITH US; WE NOW EXPECT TO GET NEW TEXT FROM INSTITUTE OF CULTURAL RELATIONS SHORTLY. SECOND QUARTER SAW SOMEWHAT MORE CRITICISM OF US ON VIETNAM, MOST OF WHICH APPEARED TO BE REACTION TO HUNGARY'S OWN DIFFICULTIES IN ICCS AND BETWEEN IT AND SAIGON. AN ARTICLE BY FOREIGN MINISTER PUJA USED PARTICULARLY STRONG WORDS. ALTHOUGH ITS OPERATIVE CONCLUSION WAS THAT END OF WAR IN VIETNAM "WAGED WITH US PARTICIPATION" HAS OPENED UP VISTAS FOR AMELIORATION OF COMMUNICATION BETWEEN EE AND US.

3. ECONOMIC DEVELOPMENTS: HUNGARY'S ECONOMIC DEVELOPMENT CONTINUES TO BE EVALUATED FAVORABLY BY GOVERNMENT, WHICH EXPECTS TO EXCEED ITS PLANNED 5 PERCENT GROWTH RATE IN 1974. OWING TO DETERMINED CONSUMER PRICE SUBSIDY POLICY, IT HAS HELD CONSUMER PRICE INCREASES TO WHAT WE BELIEVE TO BE LOWEST LEVELS IN EUROPE. HOWEVER, THIS WILL REQUIRE GOVT SUBSIDIES TO BE AT LEAST FOUR TIMES HIGHER THAN IN 1973. IN JUNE, IN ITS FIRST BREAK IN CONSUMER PRICE POLICY, GOH ANNOUNCED ITS INTENTION TO INCREASE FUEL AND HEATING OIL PRICES SUBSTANTIALLY, TO BE ACCOMPANIED BY PARTIALLY COMPENSATING SALARY INCREASES. IT IS CLEAR THAT PRICES WILL HAVE TO BE ALLOWED TO RISE SUBSTANTIALLY IN 1975 AND IT IS PROBABLE THAT THERE WILL BE INCREASES ON OTHER COMMODITIES THIS YEAR ALSO. INFLATIONARY INCREASES IN WESTERN RAW MATERIAL COSTS ARE ALSO OUTPACING INFLATIONARY PRICE INCREASES IN EXPORTS. DINANCE MINISTER FALUVEGI RECSTPB PRIVATELY TOLD US THIS WAS COSTING GOH 177 PERCENT OF ITS FOREIGN EARNINGS, ALTHOUGH OTHER PUBLIC STATEMENTS HAVE SAID THEIR TERMS OF TRADE WITH THE WEST IN FIRST FOUR

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MONTHS DETERIORATED BY 10 PERCENT.

4. MILITARY: IN MILITARY FIELD SECOND QUARTER SAW UPSURGE OF RUMORS THAT SOVIETS PLUMPING FOR INTEGRATION OF HUNGARIAN ARMED FORCES WITH SOVIETS AND CZECHS. RUMORS EMANATED FROM HIGH-LEVEL VISIT HERE OF MARSHALS GRECHKO AND SHTEMENKO AND CZECHOSLOVAK CHIEF-OF-STAFF GENERAL DZUR AND THEIR VISITS TO OTHER EE COUNTRIES. SO FA THERE IS NO SUBSTANTIAL CONFIRMATORY EVIDENCE. SOVIET EQUIPMENT CONTINUES TO BE MODERNIZED AND WHAT MINOR TROOP INCREASES THERE HAVE BEEN GIVE NO CAUSE FOR CONCERN. END SUMMARY.

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